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April 3, 2003

The Honorable Ann M. Veneman Secretary of Agriculture 200-A Jamie L. Whitten Building Washington, DC 20250

## Dear Secretary Veneman:

The Farm Security and Rural Investment Act of 2002 (the 2002 farm bill) makes a historic investment in conservation by increasing funding over prior levels by 80 percent and creating new programs that focus on working land. Collectively, the programs in the conservation title, highlighted by the new, voluntary, trade-compatible Conservation Security Program (CSP), demonstrate a strong commitment to long-term conservation and environmental benefits.

The CSP expands the coverage of pre-existing programs by rewarding good stewards of the land and emphasizing the implementation of a resource-based system on working land. According to the National Resources Inventory (NRI), much work remains to protect and enhance our natural resources. For example, since 1995 "erosion has leveled off at about 1.9 billion tons per year, and 108 million acres (29 percent of cropland) has been determined to be excessively eroding at rates of 1.3 billion tons per year." Further, total pastureland and rangeland has declined by 23 million acres since 1982, and the annual average net loss of wetlands was 32,600 acres from 1992-97. The CSP will help stem and reverse these trends by providing farmers and ranchers the incentive to use their productive lands in an environmentally-friendly manner.

If implemented correctly, CSP holds potential to provide real conservation gains on many more farms and ranches which benefits both producers and the general public. Despite developments since the enactment of the 2002 farm bill, the U.S. Department of Agriculture (USDA) should implement the CSP in a way that does not impair its full future implementation as an uncapped program fully available to all producers who meet its requirements.

As the primary authors of CSP, we are writing to provide our thoughts on program implementation in response to the Advance Notice for Proposed Rulemaking and Request for Comments (ANPR). We urge USDA to implement CSP in a manner that

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encourages maximum participation and the maximum level of environmental benefit. In designing CSP, we strived to develop a program that emphasized the following goals:

(1) Reward Good Stewards: Prior to the 2002 farm bill, USDA agricultural conservation programs focused on supporting only new conservation practices. This approach has created discontent and even anger among many good stewards of the land. It has also hurt agriculture on the whole by discounting the important environmental services many producers have voluntarily provided over the years.

Recognizing and rewarding this good stewardship is a key component of CSP. Rewarding good conservationists in a concrete manner also provides the general public with an appreciation of the environmental services provided by many agricultural producers. Without maintenance payments, we risk losing the substantial environmental benefits gained over the years. By providing monetary recognition for producers who maintain and manage conservation practices on their working lands, CSP encourages producers to continue these practices even in difficult financial times like those facing producers today.

(2) Encourage Increased Conservation: If implemented correctly, CSP will generate significant environmental benefits from both the ongoing maintenance of conservation activities and the adoption of expanded or new activities. Integral to this goal of achieving benefits is the adoption of a resource-based approach - one that focuses on implementing practices that collectively maintain or enhance a resource at the nondegradation level, not just the adoption of practices independent of this goal. Because CSP requires producers to reach a higher level of conservation than other USDA working land conservation programs, including the Environmental Quality Incentives Program (EQIP), it should be open to all producers on all types of land, not just those USDA currently considers "the best" conservationists, as mentioned in the ANPR.

To achieve the goal of encouraging more conservation through both new and existing conservation practices, CSP implements a three-tier system that provides different payment rates and flexibility for producers. The tier system provides producers the opportunity to participate at the conservation level they believe achievable for their operation, with potential increased payments resulting from increased conservation activities. However, even at tier I a producer must address (through implementation of new and/or existing practices) a natural resource concern at a nondegradation or sustainable level. By providing an increased opportunity for payments at higher tiers, the CSP will encourage producers to achieve higher levels of conservation.

(3) <u>State and Local Emphasis in Program Requirements</u>: Agricultural operations and conservation practices vary widely across the country. CSP recognizes these differences. Each CSP plan should reflect the individual resource needs of the specific operation. In

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addition to specific operational concerns, addressing state priorities should be required. We believe that states, through their state technical committees and local working groups, should have the flexibility to determine significant resources of concern and provide criteria for increased payments for those activities that go beyond the minimum required activities, through both enhanced payments and base payments.

Moreover, in determining how to address resource concerns, USDA should not establish minimal national criteria that inadvertently eliminate important local environmentally-beneficial actions. Instead, states should have the flexibility to develop criteria to address subcategories of a resource that are integral to protecting or enhancing state or local resource concerns (i.e., odor or particulate matter as subcategories of air quality).

- (4) Conservation on Working Lands: The 2002 farm bill devoted significant resources toward working land. Congress included the CSP as an additional tool to help producers address the resources on the over 900 million acres of private agricultural lands (excluding forest lands), identified by the NRI. Although the emphasis should remain on land in production, that does not mean that land needs to be cropped every year to qualify. Moreover, small pieces of land that remain idle can be important parts of the working lands conservation landscape and can provide great environmental benefit if correctly incorporated into a conservation plan.
- (5) NRCS Expertise: In implementing the CSP, the Natural Resources Conservation Service (NRCS) is expected to rely heavily on its experience (as both NRCS and previously as the Soil Conservation Service) working with producers on conservation activities in implementing the CSP. The legislation refers to NRCS' National Handbook of Conservation Practices and the Field Office Technical Guide (FOTG), which includes the quality criteria, to determine eligibility requirements and standards for the program. We encourage NRCS to use these references because they are understood by NRCS staff, third party providers and producers. We believe that the use of these references will facilitate the development of rules and implementation of CSP.

Our responses to the specific questions included in the ANPR follow:

Question 1: The law specifies that conservation security plans address one or more "significant" resource concerns. Resource concerns may be as general as soil erosion or water quality or as specific as soil erosion by water or ground water quality. Many concerns have no practical direct measurement techniques or tools. What criteria should be used to determine what is a resource concern and whether a resource concern is significant?

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A resource of concern should be defined as a major resource, such as water quality, soil quality, air quality or wildlife, which can be treated to reach a sustainable or nondegraded level. Producers must implement sufficient practices to ensure that a resource, once designated as significant, is treated at the appropriate nondegradation standard, which is outlined in the legislation. The nondegradation standard is defined by the quality criteria as the "level of measures required to adequately protect, and prevent degradation of" natural resources a producer must implement. 16 U.S.C 3838

We would encourage NRCS to allow the state technical committee to determine which resources are significant on a state or local level. In determining which resources qualify as significant, the state technical committee should select resources that are closely tied to the resource objectives of the state or locality and strongly consider off-farm impacts on the state's environment. Once this determination is made, it would be reasonable to require all producers in the state or local community to conserve the selected resources as a minimum to participate. For example, in the state of Iowa as in many states, water quality and soil erosion would be logical choices for "significant resources of concern."

In addition to addressing a significant resource of concern, the producer's plan under CSP may include other unrelated practices. The legislative language makes clear that a producer may conserve or enhance any existing or potentially existing resource of concern in addition, to the significant resource of concern. In creating the plan, an NRCS employee or a technical service provider will conduct a site-specific evaluation of the operation to determine which resources are being or should be addressed.

While CSP was designed to achieve significant conservation on the ground, it does not include a requirement for producers to prove that the practices generate benefits on a specific farm. For that reason, the fact that some resource concerns currently have no practical direct measurement techniques or tools should not prevent NRCS from providing assistance under CSP. In fact, NRCS now has standards to determine if a resource problem exists, even if direct measurement techniques or tools for the resource are not fully developed. Over time, producer participation will likely lead to development of these techniques or tools which should help refine the FOTGs, but the current lack of them should not prevent producers from implementing practices specifically outlined in the quality criteria if NRCS believes they will enhance a resource.

Question 2: The law requires that NRCS establish minimum requirements for three tiers of conservation effort. The minimum could be as specific as a list of minimum practices or as general as bundling of conservation measures that achieve a desired resource outcome. What should be the minimum requirements for each tier? Should NRCS establish minimum requirements that apply to all contracts nationally? What could some of these requirements be?

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As written, the CSP clearly contemplates an approach of bundling of conservation measures as appropriate to achieve the desired resource outcome. Further, minimum requirements should be based on the statute and build upon NRCS' expertise and specialized handbooks and technical guides that are designed to work at the local level. As mentioned in the previous question, within these handbooks are quality criteria - or "the level of measures required to adequately protect, and prevent degradation of" natural resources a producer must implement. Together, when implemented correctly and as needed by the particular operation, these collections of practices can achieve the desired result.

The minimum requirements for each tier are outlined in the statute. For tier I, a producer must address at least one significant resource of concern, using practices outlined by the quality criteria, on part of the operation. For example, if a part of an operation has, or would have absent action taken by the producer, a significant resource of concern that is not sustainable, the producer must address that resource using practices which meet the quality criteria level on that part of the land. For tier II, the producer must address at least one significant resource of concern, like water quality, across the entire operation using the quality criteria as the minimum standard. For tier III, the producer must address all resources of concern identified across the entire operation - namely a producer must adopt a Resource Management System. NRCS should not allow a producer to participate in CSP at tier II if the producer does not address all causes degrading the significant resource of concern or at tier III if the producer does not address all causes degrading all resources.

We believe that these minimum requirements establish eligibility, and additional eligibility requirements should not be imposed on producers. Instead, CSP should provide increased payments for producers who implement practices beyond the minimum requirements. Further, while the design of CSP inherently encourages increased conservation efforts, a producer who has already implemented practices sufficient to qualify by meeting minimum requirements should not be required to adopt new practices.

Further, we agree with the general contention laid out in the ANPR that "all needed practices and management must be in place and maintained before a producer can move to the next tier." However, if this requirement is met, NRCS should allow graduation to the next tier prior to the end of the current contract.

**Question 3**: The law requires NRCS to describe the particular practices to be implemented, maintained, or improved as part of the program. What criteria should be used to determine which practices and activities are eligible for payment under the

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program? Should specific practices or activities receive priority for payment under the program? To what extent should sets of practices and activities be accorded priority for payment under the program?

NRCS should make eligible all practices, beyond those required to meet obligations of conservation compliance, that are adopted or maintained and that contribute to protecting or enhancing a resource as laid out by the quality criteria. Once a producer meets the minimum requirements, he/she may receive additional payments for implementing additional conservation practices addressing additional resources - even those practices that do not reach the quality criteria level for the additional resource.

CSP does not provide priority payments for particular practices. While all practices that help enhance or maintain a resource may qualify for payment, NRCS must require a producer to adopt the lowest cost practice where that practice also achieves the desired goal. At the same time, certain activities more greatly benefit the environment than others, and a producer who implements those practices should receive a greater payment through both the cost-share component, where appropriate, and through enhanced payments.

In addressing a resource concern, CSP provides cost-share for any equipment that is integral to eligible conservation practices. Several land-based conservation practices, like rotational grazing and conservation tillage, require the use of equipment. Without providing cost-share payments for this equipment, the practice could be too costly to implement which can lead to less conservation and decreased environmental benefit.

Further, we would suggest NRCS consider providing a single, bundled payment based on local costs for maintenance of practices addressing a resource. All producers in a county would, for example, receive the same payment for practices that maintain water quality, regardless of the mix of new and existing practices. This single payment should be set to ensure that the at least 75% of the costs of maintenance are covered.

Finally, the proposed rule for the EQIP includes a prohibition on "payments for land management practices that are currently generally accepted and practiced in the agriculture community." While this prohibition may be appropriate for EQIP, which does not provide maintenance payments, it may be contrary to the intent of CSP, depending on how it is carried out. As previously mentioned, CSP encourages a comprehensive resource-based approach that in many cases will involve the continuation of conservation practices, even those that many producers in a region already use. We urge NRCS to not adopt this approach under CSP if it could inadvertently deny maintenance payments to good stewards who are currently providing environmental benefits.

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**Question 4**: The law restricts the maximum base payment to a percentage of the total contract cap (i.e. 25 percent for Tier I and 30 percent for Tiers II and III). What should be the balance of the base payment, maintenance cost-share payment and enhancement payment to reward the steward and attain additional conservation benefits?

The law specifically provides limits on the base payment as a percentage of the total payment permitted under each tier; however, CSP has *no* predetermined balance nor is there any policy basis to establish any sort of predetermined basis for the division of the cost-share and enhanced payments. The CSP should primarily be designed to encourage increased conservation through the enhanced payments and payments for practices requiring intensive management. In cases where the cost-share component of the payment drives the payment over the mandated tier payment cap for several years, but for fewer years than the full CSP contract length, we would encourage NRCS to spread the cost-share reimbursement over several annual payments.

Question 5: The law uses the extent of the agricultural operation covered by the contract as a primary distinction between Tiers I and II. Tier I covers the "enrolled portion of the agricultural operation", while Tiers II and III cover "the entire agricultural operation." With the variety of ownership and landowner-tenant relationships which change over time across the country, how should "agricultural operation" be defined?

An agricultural operation should be defined in a manner that makes sense based on geography and the resources to be enhanced or protected. Contiguous land or parcels of land that together have similar resource concerns and that are managed as a cohesive unit should be counted as one agricultural operation. For that reason, an approach based only on tract numbers would not fit within the CSP objectives because tracts are not determinative of resource concerns. NRCS should make certain that the definition of an agricultural operation does not allow a producer to pick and chose which lands to enroll from the lands managed in an attempt to avoid applying necessary practices on land with more difficult resource conservation challenges.

Overall, we would encourage USDA to define an agricultural operation broadly enough to encompass sufficient land to serve the conservation purpose and to prevent arrangements under which the payments are received without achieving the CSP requirements of protecting and enhancing natural resources.

**Question 6**: The law specifies the eligible land for payment purposes as cropland, grassland, prairie land, and rangeland as well as forestland that is an incidental part of the agricultural operation. Should noncropped areas, such as turn rows or riparian

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areas, that are part of the agriculture operation be included for conservation treatment? Should farmsteads, ranch sites, barnyards, feedlots, equipment storage, material-handling facilities, and other such developed areas be considered part of the ``agricultural operation''? What criteria should be used to determine those areas of a farm or ranch that might legitimately be excluded from the "agricultural operation"?

CSP payments should cover non-cropped areas, such as turn rows or riparian areas, as part of the agriculture operation. Frequently, these pieces of land are most instrumental in achieving the conservation objectives strived for in all conservation programs, including CSP. For example, many critical water quality and wildlife benefits result from practices on these non-cropped areas. Since CSP focuses on land-based practices, or practices that directly involve agriculture land, any areas on which practices can be applied should be included in the program and eligible for payment.

"Developed areas" of land as described in the question may be eligible for enrollment in CSP if practices implemented in or on these "developed areas" would contribute to the protection or enhancement of a resource. If a resource on the operation cannot be sustained at the nondegradation level without actions on the "developed areas," excluding these areas would be inconsistent with the purposes of CSP. Moreover, additional conservation practices beyond the minimum requirements, like windbreaks and food plots that are implemented on those lands should be covered.

**Question 7**: The law specifies that NRCS make a base payment as part of a conservation security plan using either the 2001 national rental rate for a specific land use or another appropriate rate that assures regional equity. How should NRCS determine the base payment? If an alternative to the national rental rate is used, how should it be constructed? Should the payments be determined at the national, state or local levels?

The statute provides the 2001 national average rental rate for the specific land use as one option for establishing the base payment. The statute also allows USDA to use another 2001-based appropriate rate to ensure "regional equity." This provision was included to encourage participation from all regions across the nation and we strongly encourage you to use this authority. While the national average rental rate serves as the lowest rate the USDA can select, in regions of the country where the country rate exceeds the national rate, the local country rental rate should be used. Further, we would encourage USDA to pay the irrigated rate for producers who use irrigation if the country rental rates are used. These payment rates would encourage greater participation and more closely reflect the costs to producers than a lower national average rental rate.

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In regions of the country where the agricultural rental rate is not indicative of the true land value, selection of a more appropriate rate should be allowed. In determining the appropriate rate, the State Conservationist should be allowed to select a state-wide or local rate that more accurately reflects the costs in the relevant area. If USDA decides to use the average national rental rate for the base payment for all producers instead of the country rental rate or another appropriate rate, we believe that USDA should use the national irrigated rate for the base payment to avoid under-compensation for a large segment of producers.

Question 8: The law provides for an enhanced payment if an owner or operator does one or more of the following: (a) Implements or maintains practices that exceed minimum requirements; (b) addresses local conservation priorities; (c) participates in on-farm research, demonstration, or pilot projects; (d) participates in a watershed or regional resource conservation plan; or (e) carries out assessment and evaluation activities relating to practices included in a conservation security plan. Enhanced payments are meant to ensure and optimize environmental benefits. How should enhanced payments be determined and calculated?

CSP was designed to maximize conservation benefits by requiring high conservation standards and maximizing participation by producers. CSP's enhanced payments are an integral component of its comprehensive and incentive-based approach to protecting and enhancing natural resources. Once minimum requirements for the relevant tier are meet, enhanced payments may provide producers financial rewards for additional conservation practices that enhance the environment.

The enhanced payments must also be provided using a simple, consistent, and transparent system. We would encourage NRCS to treat the first two incentive payments similarly to each other and to treat the last three enhanced payments similarly to each other. One way to ensure that this is done is to take into account the cost or income forgone for adopting or maintaining the practice plus an incentive component to encompass participation considering the public good. It is critically important that enhanced payments be available for producers participating at all tiers, not just for producers enrolled at tier III.

**Question 9**: The law does not limit the number of contracts held by a producer. Should there be a limitation on the total number of contracts a producer may have? If there is no limit on the number of contracts, should USDA set an individual payment limitation for producers with multiple contracts?

The CSP bill language does not specifically limit the number of contracts. However, the legislation does contain a clear payment limitation based on the tier under which the contract is entered and we strongly urge USDA to follow the bill language as it did with EQIP. Specifically, the legislation requires that the Secretary "shall make an annual

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payment, directly or indirectly, to an individual or entity covered by a conservation security contract in an amount not to exceed..." the payment cap for that tier. 16 U.S.C 3838c USDA should consider limiting contracts if that is necessary to prevent evasion of the payment limitation or CSP requirements applying to the "whole operation."

**Question 10**: The law requires that the regulations provide for adequate safeguards to protect the interests of tenants and sharecroppers, including provisions for sharing payments, on a fair and equitable basis. Concerns have been raised over the impact of CSP provisions on owner/operator relationships including changes in rental rates or changes in operators. How can NRCS ensure that payments are shared on a fair and equitable basis?

We would strongly encourage NRCS to draw upon its expertise from running other agriculture conservation programs, especially EQIP, when drafting appropriate regulations concerning the sharing of payments. Given that guidance, NRCS should primarily allow private parties to negotiate how the payments should be shared. NRCS should simply ensure that the rules do not facilitate or engender unfair treatment or application of the regulations to obviously favor one party over the other.

Question 11: The law requires a minimum contract length in CSP of five years. Many landlord-tenant relationships are short-term in nature, usually less than five years. Should the applicant be required to have control of the land for the complete CSP contract period? How should the program address the tension between the return to management versus the return to capital?

We are perplexed by the source of tension between the return to management versus the return to capital as described in the question. The CSP is not a system to reward or provide a return to capital. Instead, it is designed to reward management and the cost and effort of adopting and maintaining practices that achieve the goal of resource protection. Therefore, the payment should go to the person who actually plans, maintains, manages or installs the practice or bears the cost.

As explained previously, we would expect USDA to implement this aspect of the rule concerning control of land in a manner consistent with other USDA conservation and commodity programs. We believe there are practical approaches to issues of control of land and landlord-tenant relationships. Given that, the CSP contract length may exceed the term of the rental agreement. The fact that many landlord-tenant contracts are of shorter length than the five-year period should not impede participation in CSP. Therefore, a producer who wishes to participate in CSP need not have control over the land for the entire contractual period.

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Question 12: The law does not prescribe a funding or acreage cap for CSP. USDA estimates that there is a potential applicant pool of over two million farms and ranches covering over 900 million potential eligible acres. A primary implementation concern is the program scope. In order for this program to accomplish the Administration's goal of maximizing the conservation and improvement of natural resources, it is necessary to prioritize CSP assistance. The Department is seeking public comments on ways to focus and prioritize CSP assistance. For example, if the program would only fund the highest-priority applications, should there be an open application process with all applicants competing for a limited number of contracts? Should applications be constrained by resource concern, program funding, tier level, owner-operator relationship, geography or other constraint?

We believe that CSP holds great potential to provide real conservation gains on many more farms and ranches if USDA implements the CSP in a way that does not impair its full future implementation as an uncapped program available to all producers who meet its requirements. CSP sign-up should follow the on-going Continuous Conservation Reserve Program model and must not include a bidding process or a specific sign-up period.

Since it will take time to ramp up the Program, there will naturally be some prioritizing, but we strongly emphasize that any constraints or priorities must be based only on natural resource conservation considerations. While we encourage NRCS to ensure geographic diversity by participants, it would not be acceptable to phase-in CSP with pilot or similar programs, not to implement CSP as a full national program or to implement with fewer than all three tiers.

Question 13: The law includes energy as a resource concern for CSP program purposes. The NRCS Field Office Technical Guide does not recognize energy as a natural resource concern and therefore no quality criteria or non-degradation standard exists to compare a conservation treatment against. NRCS is seeking comments on how energy use should be incorporated into the program requirements. How should the benefits be assessed?

While encouraging energy conservation as a clear objective of the CSP, energy does not rise to the level of a separate resource of concern that requires NRCS to develop a set of quality criteria similar to the quality criteria for soil, water, air, plant and animals. A producer cannot qualify for the CSP only by addressing energy concerns. However, the CSP should encourage the adoption of new and innovative practices, including energy conserving practices. Specifically, activities that reduce the use of fossil fuels,

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encourage the use of renewable energy sources, and help to sequester carbon in the soils should be covered under CSP. In today's climate the importance of conserving energy and the development of alternative renewable forms of energy cannot be overemphasized.

**Question 14**: The law includes payment for conservation practices described as requiring planning, implementation, management and maintenance. A concern was raised as to whether the payment would be, in fact, a return for equity in capital or for the engagement in intensive management. What should the program be paying for?

All aspects of planning, implementation, management and maintenance should be covered by the CSP contract. The CSP payment was designed to cover the engagement in intensive management, not the return for equity capital. Specifically, the CSP contract should cover the "costs" of all four of these aspects for both new and existing practices. We cannot overemphasize the fact that maintenance goes beyond maintaining actual physical structures and encompasses management for intensive annual practices, including for managed rotation grazing, resource-conserving crops, tillage-related practices and conservation buffer practices. Producers dedicate significant time and resources to maintain these highly beneficial practices. Maintenance payments under CSP were specifically designed to recognize the dedication of these resources, in addition to the maintenance of structural practices.

**Question 15:** The law provides little guidance for monitoring quality assurance or specifics on identifying contract violations. The issue is two-fold in nature encompassing both the measurement of outcomes from a performance standpoint and assuring the Federal funds are spent wisely and that contracts are appropriately carried out. How should USDA ensure accountability?

In fact, the law does provide guidance for monitoring quality assurance and identifying contract violations. The law requires that producers participating in the CSP must comply with a CSP plan that is incorporated into a CSP contract. The contract will specifically spell out practices and standards for these practices, as described previously in other responses, and the consequences for not carrying out the requirements laid out in the CSP contract. It is always imperative the federal funds be spent wisely. Again, NRCS manages several other conservation programs. We would expect that the same standards and methods for monitoring quality assurance or identifying contract violations, such as random spot checks will apply to CSP as are applied to other programs.

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## Conclusion

We are encouraged by your on-going commitment to implementing CSP. We do believe that CSP should be available for producer sign-up as soon as possible. Unnecessary delays will disadvantage farmers and ranchers and erode the significant progress agricultural producers have already made to protect and enhance natural resources. To expedite this process, we strongly urge NRCS to use its expertise and already existing handbooks and guides as the basis for developing the CSP.

We appreciate your full consideration of our comments. We look forward to working with you on implementing CSP as the final regulations come out later this summer.

Sincerely yours,

Ranking Democratic Member

Gordon Smith U.S. Senator

cc: Bruce Knight, Chief

Natural Resources Conservation Service